Weekly Economic Review

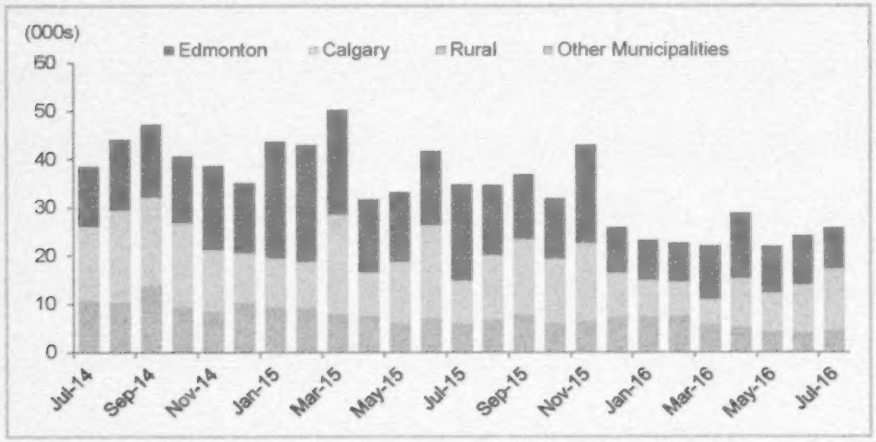
Housing starts stabilizing but still sluggish

Housing Starts

Despite a small uptick in June and July starts remain weak

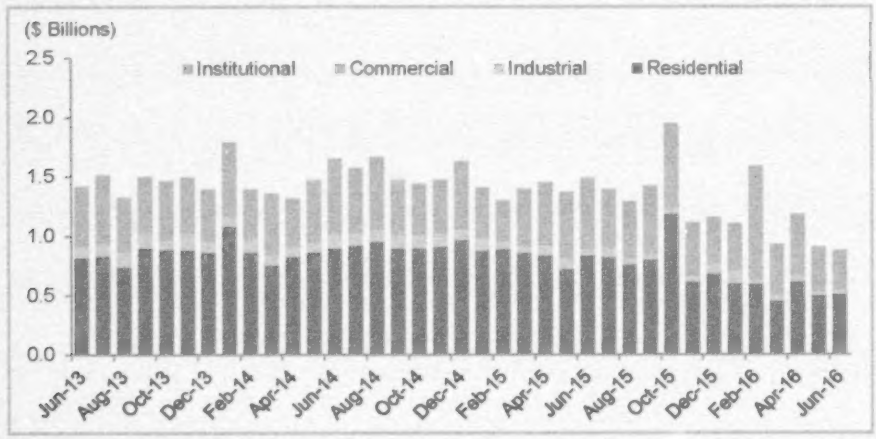
Alberta housing starts have seemingly stabilized over the past few months, trending around the lowest level since mid-2011. Housing starts ticked up to 25,769 units (annualized) in July (Chart 1), but remained down 26% year-over-year (y/y). Multi-family starts were down 32% y/y, weighed down by a sizable drop in the construction of row and semi-detached housing units. Single family starts also remained weak (-16% y/y). Housing starts in Edmonton, which had been faring relatively well, are starting to show signs of weakness, while starts in rural areas also waned. In contrast, starts ticked up for the second straight month in Calgary and have been picking up since hitting a low point in March.

Chart 1: Small uptick in starts still outweighed by earlier weakness
Alberta housing starts (annualized)



Source: Canada Mortgage and Housing Corporation

Chart 2: Slowed real estate market leads to drop off in permits
Alberta building permit values by building type



Source: Statistics Canada

Building Permits

Permit issuance at 5-year low

The value of Alberta building permits dropped 2.9% month-over-month (m/m) to $878 million in June (Chart 2). A decline in the value of permits issued for commercial and institutional buildings outweighed an uptick for industrial and residential structures. Continued weakness in economic activity pushed the level of permit issuance to its lowest level since March 2011. On a year-over-year basis, permit values were down by 41% - both residential (-39% y/y) and assorted non-residential (-44% y/y) reflecting the slowdown. The value of permits for industrial and commercial structures in particular has steadily receded. Moreover, the drop in building permits was reflected in both Edmonton (-41% y/y) and Calgary (-47% y/y).

New Housing Price Index

Housing prices starting to fall

The province's New Housing Price Index (NHPI) saw a modest decline and has been receding on a year-over-year basis for the past ten months. Housing prices were down 0.5% y/y in June (Chart 3). The weakness was most evident in Calgary's housing market, where prices fell 1.0% y/y. Moreover, Edmonton's NHPI was down for the first time since August 2014 (-0.2% y/y).

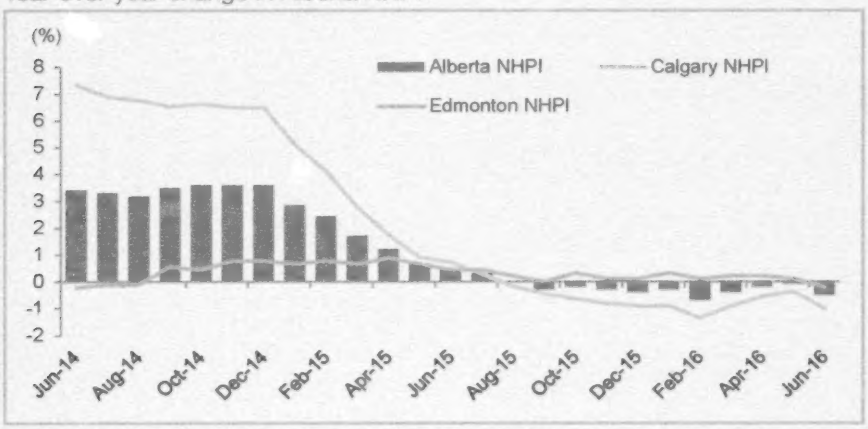
Across the province, the NHPI was pulled down by a 1.1% y/y decline in house prices. Land prices were up 0.5% y/y.

Non-Residential Building Construction Price Index

Non-residential building prices also deflating

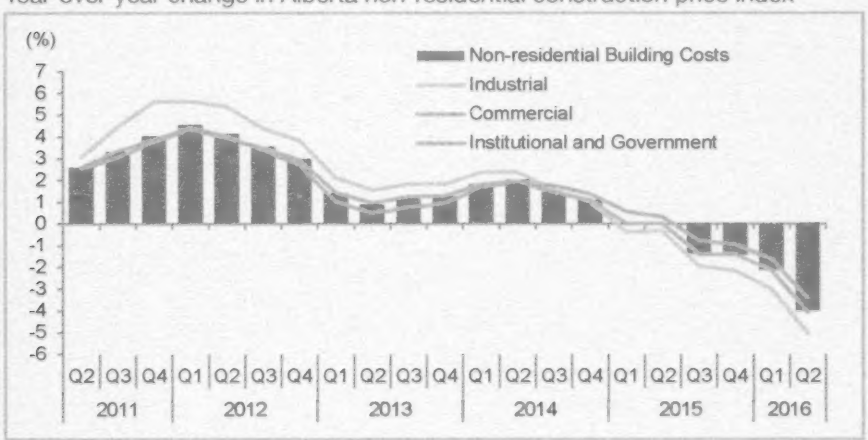
Alberta's non-residential building construction price index was down 1.5% in the second quarter of 2016, the fourth straight decline. Weaker construction activity throughout the province has lowered building costs: the costs for industrial construction were down 1.7% quarter-over-quarter (q/q), government and institutional costs declined 1.5% q/q and commercial costs waned by 1.5% (Chart 4). In terms of municipalities, prices in both Edmonton (-1.5% q/q) and Calgary (-1.6% q/q) fell by a similar magnitude. After four quarters of increasingly large declines, non-residential construction prices across Alberta have fallen 4.0% compared with the prior year (Chart 4).

Chart 3: Housing prices start softening amid weak housing market
Year-over-year change in Alberta NHPI



Source: Statistics Canada

Chart 4: Weak construction activity weighs on building costs
Year-over-year change in Alberta non-residential construction price index



Source: Statistics Canada

Farm Product Prices

Farmers coping with low prices

Weak global commodity prices are affecting farm gate prices in Alberta, especially for bovine livestock. Slaughtered cattle (-25% y/y) and calves (-31% y/y) incurred the largest price drop since early-2004. Prices for feeder cattle (-33% y/y) and calves (-35% y/y) have also fallen substantially. Price changes for different Alberta crops were more mixed, with higher prices being received by wheat (9.8% y/y) and canola (6.7% y/y) farmers, while durum (-7.4% y/y) and flaxseed (-15% y/y) farmers were coping with lower prices for their crops. In contrast, hog prices were up for a fifth straight month (4.7% y/y).

American Consumers

US shoppers slow down slightly

After several months of steady growth, US retail sales were unchanged in July. Activity remained robust for motor vehicles and parts dealers (1.1% m/m). Without automobile and parts, retail sales were more subdued, down by 0.3% m/m. Several retailers saw falling sales including food and beverage stores, building materials and gardening supplies, sporting goods, as well as apparel merchandisers. Gas stations incurred a 2.7% m/m drop in sales, mostly due to lower prices at the pump. US consumer confidence ticked down 0.1 percentage points (pp) m/m but remained up 6.3 pp compared with July 2015.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.